The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Cabinet Approves Bill on Foreign Investment in Insurance Sector

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April 05, 2012



The share of foreign capital in domestic insurance companies might double in the near future, as the government approved a bill Thursday aimed at attracting more investment into the sector.

The bill approved at the Presidium meeting chaired by Prime Minister Vladimir Putin increases the limit for overall foreign ownership of Russian insurance firms to 50 percent, up from the current 25 percent.

Passing the bill would help domestic insurance companies increase their equity capital to meet new requirements, which went into effect earlier this year, Putin said at the meeting.

The draft law now heads to the State Duma for consideration.

As of Jan. 1, the minimum for equity capital ranges from 60 million rubles ($2.05 million)

for companies providing only medical insurance to 480 million rubles for those providing broader insurance and reinsurance services.

About 31 percent of insurers didn't meet these requirements as of late December, while the overall equity capital deficit exceeded 20 billion rubles, according to figures from the Federal Financial Markets Service published on the government website.

The Finance Ministry pushed for raising the limits for foreign ownership of insurers last year, but the proposal faced resistance from the Economic Development Ministry, which said the move was premature before Russia joins the World Trade Organization.

"The [current] restrictions on foreign ownership might not only hinder foreign investors from coming to the Russian insurance market, but also affect the Russian insurers' plans of making initial public offerings," said Nadezhda Pavlova, head of strategic analysis of financial markets at audit company Marillion.

Possible negative effects from the lack of foreign investment include limited access to new management strategies, weakening insurance market infrastructure and a reduction of the general level of insurance culture, she said in e-mailed comments.

Increasing foreign ownership limits would allow for an additional 60.8 billion rubles in foreign investment, according to the company's estimates.

A total of 572 insurance companies are currently operating in Russia, including international giants like Allianz, AXA Group and Aviva, according to the Federal Financial Markets Service.

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